THE

CONSTITUTIONALITY AND ECONOMIC ASPECTS OF SOCIAL CREDIT

EVIDENCE

OF

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AND

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BEFORE THE AGRICULTURAL COMMITTEE

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CONSTITUTIONALITY OF SOCIAL CREDIT

EVIDENCE OF DEAN WEIR

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We get back to our old friends, Section 91 and Section 92. Section 91 gives the Dominion exclusive jurisdiction over the issue of paper money: (Section 91, Subsection 15. See also Section 91, Subsection 4).

Section 138 of the Bank Act (Chapter 24 of 1934) is as follows:

> "(1) Every person, except a bank to which this Act applies who issues or reissues, makes, draws, or endorses any bill, bond, note, cheque or other instrument, intended to circulate as money or *to be used as a substitute for money,* for any amount whatsoever, shall incur a penalty of four hundred dollars.
>
> "(2) If any such instrument is made for the payment of a less sum than twenty dollars, and is payable either in form or in fact to the bearer thereof, or at sight, or on demand, or at less than thirty days thereafter, or is overdue, or is in any way calculated or designed for circulation, or as a *substitute for money,* the intention to pass the same as money shall be presumed unless such instrument is:
>
> "(*a*) A cheque on some chartered bank paid by the maker directly to his immediate creditor; or
>
> "(*b*) A promissory note, bill of exchange, bond or other undertaking *for the payment of money* made or delivered by the maker thereof to his immediate creditors; *and*
>
> "(*c*) *Not designed to circulate as money or as a substitute for money.*"

See also the Bank of Canada Act, Chapter 43 of 1934, Section 24.

I gather that the purpose of these tickets or credits is that they are in some way to be documents which are to get into circulation to some extent or other. Where they are called "non-negotiable" that term would be used in a non-technical sense. They are intended to be used once at least in payment for goods and services. I think, at the outset that putting such things into circulation under existing Dominion law constitutes an offence. Section 138 of the Bank Act, which I have just read, is, I think, unquestionably within the constitutional powers of the Dominion Parliament. I think it is obvious, whether these certificates are negotiable or not that they are intended, if not to circulate as money, at least to be used as a "substitute for money," and it would seem to me that they clearly come within that meaning, (i.e., of a "substitute for money"). They do not have to be actual money to come within Section 138 of the Bank Act if in fact, they are intended to be used as a "substitute for money". Here is a definition of money as accepted by the English Courts:

> "Money as currency . . . seems to have been well defined by Mr. Walker in 'Money, Trade and Industry' . . . as that which passes freely from hand to hand throughout the community in final discharge of debts, and full payment for commodities being accepted equally without reference to the character or credit of the person who offers it and without the intention of the person who receives it to consume it or apply it to any other use than in turn to tender it to others in discharge of debts or payment for commodities."—Moss vs. Hancock, 1899 2 Q.B., Page 111.

That definition was accepted by Mr. Justice Darling in the case mentioned in 1899.

Whether these certificates or tickets would be "money" or a "substitue for money" they would seem to be within the prohibition of the Bank Act. Nothing the province could do could make such certificates legal tender. Nobody could be compelled to receive them in payment of goods or services, or in payment of debts. There are consequently, grave difficulties under the law as it stands in connection with the issue of these certificates if they are intended to become circulating media or to be a "substitute for money."

The other question is the fixing of the "Just Price." Take a case such as this: Supposing it is determined that the "Just Price" of wheat in Alberta is 60 cents,

but that the world price or the price outside the province at Winnipeg, Fort William or elsewhere, as the case may be, is one dollar. My understanding of the proposal is that in such cases, in some way or other, the province would take 40 cents (or some part of it from the seller, the difference between the fixed Just Price and the outside price, and that it would take that difference in effect in the form of taxation, the grower being given 60 cents only. The Province has not got power to do that.

The Province of British Columbia attempted to fix the price at which fruit could be sold. They legislated on the basis that they had power to regulate prices. The case went to the Supreme Court of Canada, (Lawson vs. the Interior Fruit & Vegetable Committee, 1931, S.C.R. 357). The Judges of the Supreme Court decided that the legislation was bad on at least three grounds. It interfered with external or foreign trade. The Judges pointed out that 90% of the fruit grown in the province was exported and only 10% consumed inside the province. It was an interference with interprovincial or foreign trade which is outside provincial jurisdiction.

Secondly they decided that the legislation was bad because it was a tax on sales in the nature of an excise tax, and a tax of that kind was indirect. It would be passed on to the consumer.

> ''An export tax falling within the category of duties or customs and excise (is), as such, as well as by reason of its inherent nature as an indirect tax (not) competently imposed by the provincial legislature.''—(A.G. for B.C. vs. McDonald Murphy Lumber Co., 1930, A.C. at 363 (Privy Council); Lawson case at Page 373).

And thirdly it was decided that export taxing was a contravention of the section of the B.N.A. Act which provides for complete free trade between the provinces (B.N.A. Act, 1867, Section 121).

It is true that a province can impose a consumer's tax on the person who actually consumes goods within the province. If the Provincial Legislature imposed a consumer's tax on all persons consuming flour in Alberta such legislation might be valid. But the Province cannot impose a sales tax, and therefore I think the Province could not under any legislation, no matter how disguised, receive by way of tax 40 cents (or any less sum) of that one dollar per bushel on wheat sold within or without the Province for export. The distinction between a consumer's tax and a sales or transactions tax was recently emphasized by the Judicial Committee of the Privy Council.—(A. G. B. C. vs. Kingcome Navigation, 1934, A.C. 45). Where the Just Price is more than the world price I do not know what would be done there.

Q. **Mr. McCOOL:** I understand the proponents of this scheme claim these are non-negotiable certificates?

A. (Section 2 of Section 138 of the Bank Act)—

> ''If any such instrument is made for the payment of a less sum than twenty dollars, and is payable either in form *or in fact* to the bearer thereof, or at sight, or on demand; or at less than thirty days thereafter, or is overdue, or is in any way calculated or designed for circulation, or as a *Substitute for money''* or—
>
> let me repeat these words:
>
> ''The intention to pass the same as money shall be presumed unless such instrument is—
>
> (*a*) ''A cheque on some chartered bank paid by the maker directly to his immediate creditor; or (The certificates are obviously not cheques on a chartered bank)
>
> (*b*) ''a promissory note (which of course these certificates would not be) bill of exchange, bond or other undertaking *for the payment of money* made or delivered by the maker thereof to his immediate creditor; *and*
>
> (*c*) *''not designed to circulate as money or as a substitute for money.''*

A ''cheque'' is a bill of exchange unconditionally ordering the payment of *money* in a legal sense and drawn on a chartered bank, that is a Dominion chartered bank. A bill of exchange or a promissory note must entail an unconditional obligation to pay in ''money'' in the legal sense. A bond also to come within the section must be payable in ''money.'' (See Section 15 of the Currency Act, Chapter 40, R.S.C., 1927).

Now here is one thing I emphasize: ''not designed to circulate as money or as a substitute for money.'' That is the underlying condition which has to be satisfied before the exceptions of Subsection 2 of Section 138 come into play.

I say such certificates from their very nature are intended to circulate either as money or at the least, as "a substitute for money." If they circulate "in fact" they may be "a substitute for money" whether they are non-negotiable or not in the legal sense.

Q. **Mr. FARTHING:** Would the fact that they only circulate once make any difference?

A. No, I do not think that would prevent their coming within the Act in the sense that they are in fact "a substitute for money."

Q. I understand I get a certificate, give it to you, and you cannot get anything unless you send it in?

A. I understand that in England, Bank of England bills are not in practice intended to be circulated indefinitely. I got one once and took it to a bank in England, and the bank officials to which I took it, said they always send such bills to the Bank of England, and that they do not put them into circulation again.

Q. **Mr. WALKER:** Will you try to distinguish between negotiable and non-negotiable?

A. Negotiability is a legal term. A negotiable instrument is one by which title passes by handing over the piece of paper. Presumably the proposed certificates or tickets are going to circulate once. The person to whom they are issued will pass them on at least once and get them into circulation to that extent. Such would amount to using "a substitute for money."

Q. **Mr. PROUDFOOT:** They say each person gets a book and makes his own, and all he does is to pass it to the person he is giving it to, and he goes immediately to the State Credit House, just as with a cheque?

A. It is not a cheque. A cheque must be on a chartered bank. Cheques are drawn only on a bank chartered under the Bank Act. That is essential to the legal idea of a cheque.

Q. **Mr. WALKER:** It might be a receipt for goods. The customer had received the goods which would enable the transfer to take place on the credit. Would that be a non-negotiable instrument?

A. Probably non-negotiable in a technical sense but the suggestion I make is this: If used in fact as "a substitute for money," if not as actual money, such a proceeding is not permissible.

Q. **Mr. SHIELDS:** I have $25.00 in the State Credit House, and I pass it to the storekeeper?

A. You transfer I suppose some ticket or voucher and you pass that to him.

Q. Simply effecting a transfer of credit does not take it out of the field.

A. That does not prevent the ticket or voucher being used as a "substitute for money." I gather from Professor Elliott's paper that the tickets, or vouchers, or whatever they are called really would be part of the currency of the country even though not legal tender and not redeemable in money.

Mr. FARTHING: In regard to taxation I take it the province can impose a purchase tax on the consumer but not on the producer or seller because that is indirect?

A. That is what the Privy Council has decided in the recent British Columbia case (A.G.B.C. vs. Kingcome Navigation Co., 1934, A.C. 45).

Mr. ROSS: Will you define the difference between certificate and cheque?

A. A cheque is a bill of exchange, payable in money on demand, drawn on a chartered bank. A Credit House is not a bank. Besides a cheque normally is not issued as a medium of exchange, as a substitute for money. It is not issued with that intent. If I draw a cheque payable to you in payment to you for goods, you will probably put it in your bank. It is not primarily intended to be a medium of exchange thereafter although it performs indirectly some of the functions of money. Section 138 of the Bank Act recognizes that. It says: "except a cheque on some chartered bank paid by the maker directly to his immediate creditor," *provided it is not designed as "a substitute for money."*—(Subsection 2 of Section 138).

Q. **Mr. McCOOL:** If the State Credit House took out a bank charter would they be able to function?

A. They must acquire that charter from the Dominion under the Bank Act.

Q. "A promissory note, bill of exchange, bond or other undertaking for the payment of money made or delivered by the maker thereof to his immediate creditor"—as I understand the proposal is each citizen will be given a blank cheque book—a book of blank forms—and if I went to you to purchase a law book I would fill that in for $2.00 or whatever is the value of the book and give it to you, the immediate creditor, for value received, and you would have to deposit that and in order to use that you would again use your slip. Would that not be covered by Clause B, which says: "or other undertaking for the payment of money made or delivered by the maker thereof to his immediate creditor"?

A. That is all dependent upon the early part of the subsection. "If for less than $20.00 and is payable either in form or in fact to the bearer thereof, or at sight, or on demand, or at less than thirty days thereafter, or is overdue, or is in any way calculated or designed for circulation, *or as a substitute for money,* the intention to pass same as money shall be presumed unless such instrument is promissory note," etc. You do not presume the intention to circulate as money or as a substitute for money in the excepted cases. In those cases you would have to prove the intention was to circulate it as money or as a substitute for money. The Crown would have to prove the facts. There would be no presumption in the exceptions mentioned in Subsection 2 of Section 138.

Subsection C goes on to say "*not designed to circulate as money or as a substitute for money.*" Are these tickets not designed to circulate to some extent as money or as a substitute for money. If you could show these tickets really became circulating media being intended to be money or a substitute for money then they would not be saved by Subsection 2. Subsection (C) of Section 2 underlies the exceptions in Section 2.

Q. **Mr. SHIELDS:** What about Raymond scrip?

A. Some of the forms were bad as being within Section 138 and I think some proceedings were started but were stopped or dropped.

Q. **Mr. CAMERON:** Can the Provincial Government impose an import tax?

A. No, that is definitely dealt with in Section 121 of the British North America Act, 1867.

"All articles of the growth, produce or manufacture of every one of the provinces shall from and after the Union be admitted *free* into each of the other provinces." In addition an import tax, a customs tax, is a typical indirect tax and it cannot be imposed by a province.

Q. **Mr. ROSS:** Pursuing the question I asked you, as I understand it these certificates are issued or proposed to be issued. The receiver again deposits them in the Credit House and in so far as I can understand it directs the issue of other certificates. Can a Credit House operate in that way, practically performing a banking function without obtaining from the Dominion Government a charter as a bank?

A. The certificates or tickets certainly are not cheques on a bank.

Q. They call them certificates?

A. What are they to be payable in?

Q. Really I don't know. The way I understand it is this: Certificates are given to all persons over 21 years of age and they are not negotiable in the ordinary sense of the word. They are like a crossed cheque and can only be handled in that way. They are given to one person who in turn deposits them with the Credit House and in turn draws other certificates he has on the bank. Can that type of institution be operated by the province, without obtaining a bank charter?

A. The suggestion is that Section 138 of the Bank Act prohibits the issue of these things because they would be used as an equivalent of or as a "substitute for money." Whether that is banking business or not it would be interesting to know what these certificates are payable in. They are payable in other certificates is what you said?

Q. To all intents and purposes the State Credit House performs the function of a bank?

A. Except in paying in other certificates instead of in money.

Q. Regardless of the form of certificate is this not a certificate that could be issued that you could deposit with the State Credit House and reissue by drawing another certificate on the Credit House which in turn could endlessly continue. Could that be done without infringing on the function of the Bank Act?

A. I am suggesting that that is prohibited by this section (Section 138). That is something used for money—as a "substitute for money" in actual fact.

Q. In regard to circulating certificates the second question is can such an institution operate in this province except under the Bank Act?

A. That I think depends on this section (Section 138). If that is its main function, it is illegal. If you draw cheques on a bank they are paid in cash or money whereas these are paid in certificates and it is not the same thing.

Q. You draw a cheque on the bank and they pay you with their own notes?

A. They will pay you in legal tender if you ask for it. They then pay you in Dominion notes which then of course you cannot now have redeemed.

Q. **Mr. BROWNLEE:** Following up Mr. Ross' question I have in my hands a copy of the Edmonton Journal in which Mr. Aberhart is supposed to have made this statement. He was asked: "Would not your proposed Central Credit House for clearing non-negotiable basic dividends generally slow up business?" His answer:

> "I do not think so. State Credit Houses would be established at every point necessary."

Keeping that as a background I ask this question: If this State Credit House is going to be established with branches at practically every point and on that State Credit House or its branches some form of certificate is issued, and particularly having regard to the general statement of Mr. Aberhart that the purpose of this is to keep credit circulating—having regard to all these things would you not say the intent of any such legislation would be to create a bank?

A. It looks much like it. The purpose seems to be the substituting for money of something to be used or circulated in place of money.

Q. I am coming to that later. I ask you to direct your attention to the organization that is set up, and I am suggesting to you that the moment we try to set up an organization with branches in every part of the province and use it for circulating and credit we are in effect trying to set up a bank?

A. Very close to it.

Q. And the Province of Alberta can only set up a bank under the Bank Act?

A. Yes.

Q. We can organize a provincial bank and have got to abide by all the terms of the Bank Act?

A. Yes.

Q. We have no control over legal tender?

A. None whatever.

Q. And therefore no powers in this province constitutionally to force any merchant to accept one of these documents and give goods for them?

A. None whatever.

Q. So if the merchant, wholesaler or retailer, said we will have nothing to do with these, the whole scheme falls at once?

A. They would not have to accept them, and I suppose the scheme would fall.

Q. With regard to the theory of the Just Price do you know of any way by which this province can fix a Just Price for goods not produced in the province?

A. No.

Q. Our constitutional power to fix a Just Price in Alberta is limited directly to the things produced in the province?

A. And consumed here.

Q. In other words, our jurisdiction is bounded by the boundaries of the province?

A. And even within the province in certain matters.

Q. Mr. Cameron asked a question that becomes very important in view of the statement made by Mr. Aberhart over the radio on April 9th, as taken down. He was asked this question, and made this answer:

Q. "If the world price of wheat is $1.00 and the Just Price is 60 cents what will the farmer receive?"

A. "The farmer will receive 60 cents and then receive an additional amount, but not all the profit."

I think you have already stated the province could not deduct that balance?

A. The province could not.

Q. What he states there cannot be put into effect?

A. I do not see how.

Q. "If the world price is 30 cents and the Just Price 60 cents, how are you going to make up the 30 cents?"

His answer is:

"The farmer will receive 60 cents and a 30 cent bonus made up from tax on imports."

Has this province a right to tax imports?

A. None whatever.

Q. Has this province any control whatever over imports?

A. None.

Q. Am I correct in making the statement that legally we could have no control over exports in any event—unless we had power to set up Custom Houses?

A. Yes.

Q. Am I correct that the B.N.A. Act definitely prevents any province legislating so as to hinder interprovincial trade? Am I correct in that?

A. Yes.

Q. **Mr. FARTHING:** I have in my hand a copy of the Social Credit Chronicle, November 23rd, and read to you from an article written by Mr. Aberhart. He is speaking of trade outside the province:

"Under Social Credit the only difference would be that our own citizens would purchase their money orders through the State Credit House with non-negotiable certificates charged against their credit accounts instead of buying the same form of order with a cheque on a chartered bank. The balance of trade would be maintained the same as now. If our balance became unfavourable the Government at once would take steps to reduce our imports and to increase our exports."

Can you say if this province can do anything constitutionally to prevent imports?

A. No, unless he means by encouraging local industry.

Q. We could with regard to exports. Could we do it with imports?

A. No.

Q. I read you again from the article of Mr. Aberhart in the Social Credit Chronicle, November 9th, the other was November 23rd—in which he says this:

"Introduction of Social Credit would put Alberta in a position where she could command the finest of trade agreements and not be compelled to restrict the importation of any desirable form of goods on account of our artificial surplus that exists only through lack of purchasing power in the hands of consumers."

Have we any power in this province to make trade agreements with anybody?

A. The province could not prevent importations. I do not see how that could be enforced.

Q. We have no power to make trade agreements; in other words, trade agreements that can be enforced?

A. No.

Q. **Mr. McKEEN:** The province has a corresponding agreement with the Dominion for all imports. Would it not be possible to control all imports the same as the liquor business?

A. The prohibition of liquor imports is under federal law. It was held the province by itself could not prohibit the importation of liquor. There used to be a wholesale house in Lloydminster, one on the Saskatchewan side and one on the Alberta side. Someone on the Saskatchewan side would phone to the Alberta side and someone on the Alberta side would phone to the Saskatchewan side and liquor would be shipped. The provinces could not stop that and the Dominion had to act. But that is not based on the question of the regulation of trade, nor is it an

infringement of Section 121 of the B.N.A. Act. If you want to see a case on that there is the case of Gold Seal Limited vs. Dominion Express Co., 1921, 3 W.W.R. R710, in which the Supreme Court of Canada put the Dominion prohibition of liquor importing, not on the regulation of Trade and Commerce but on other grounds entirely. Section 121 of the British North America Act is conclusive as to ordinary commercial transactions and it was held in the Lawson case, to which I have referred, that the Province of British Columbia could not prohibit or interfere with the export of fruit from British Columbia. The Privy Council in A.G.B.C. vs. MacDonald Murphy Lumber Co., 1930, A.C. 357, decided the same thing in a case dealing with the export of logs. The province could neither prohibit the export of logs nor could it impose a tax on such export. It also works the other way. The province cannot prohibit imports (Section 121 of B.N.A. Act).

Q. Has not the province complete control over handling of liquors?

A. That comes under a different head from ordinary trade and commerce. Liquor is not looked on as an article of commerce. See the Gold Seal case mentioned above. Besides there is Dominion legislation prohibiting importation. It is Dominion legislation which prohibits importation—not provincial.

Q. If you have a corresponding agreement with the Dominion as must exist now with the liquor, would it not be possible to handle the entire imports?

A. I think the Dominion itself has not power to prohibit free trade between provinces for exports and imports within Canada where the matter is really one of commercial trading Section 121 of the British North America Act binds the Dominion as well as the provinces.

Q. **Mr. FARTHING:** There are other countries in the world which have federal forms of government, the United States and others. Do you know of any country in the world which does not reserve to the central authority, the Sovereign Power, full control over importation of goods as regulated by tariffs?

A. It is universal in federal governments to leave the power as to customs with the central body. That is provided for in our Constitution. Section 121 insures free trade within Canada between the provinces. The Dominion or the province, or both, cannot change that.

Q. **Mr. ROSS:** Has this province the power to issue any document including a cheque of its own, and has it the power to force a creditor to accept that in payment of a debt, or a merchant to accept that in payment of goods?

A. I do not think so. Legal tender is exclusively a Dominion matter.

Q. There is no document this province can issue that a creditor would have to accept as payment of a debt, or a merchant accept as payment for goods?

A. I do not think so. That is exclusively a Dominion matter under Section 91, Sub-section 20 of the British North America Act.

Q. Legal tender would have to be received for the cheque?

A. Even chartered bank notes are not legal tender.

Q. You would have to go through the entire operation before a creditor would have to accept it?

A. Yes.

Q. **Mr. ENZENAUER:** If I gave you an order for your dinner on the Macdonald Hotel and they having arranged with the Credit House they would satisfy this claim and that transaction is completed, would that be construed as circulating for money?

A. Just for getting a dinner, he could not use it for a taxi, a radio, etc.? It might still be a ''substitute for money''; that is why you get it.

Q. **Mr. WALKER:** Is this a fair conclusion in regard to this point we have been discussing; exclusive of the right of a sovereign state and in order to function in this respect it is necessary that Alberta set itself up as a Commonwealth?

A. These functions are now vested in the Dominion Parliament and not in the provinces.

Q. **Mr. RONNING:** On what grounds do you make the statement that the province

has no right to take a portion of the price when wheat is one dollar on the world market and the Just Price in the province is 60 cents; on what ground does the province not have the right to take that?

A. The Supreme Court of Canada put it on three grounds; first, such action would involve imposing an indirect tax; secondly, it would be an interference with export trade, and thirdly, which may be the same thing, it interferes with the regulation of trade and commerce. The Privy Council reiterated that in connection with the fuel oil tax in British Columbia. They say you may, as a province, tax the actual consumer in the province but you cannot impose a tax on the sale of an article because that would be indirect and the tax would enter into the price.

Q. On the same grounds the province would not have power to fix prices on commodities imported?

A. Some of the grounds would be the same—the province could not impose a customs tax—that would be indirect and it would also infringe Section 121. The province could not prevent individuals importing on their own account and importations as such could not be taxed by the province.

Q. What about the coal mines tax?

A. That was held bad because indirect.

Q. **Mr. PROUDFOOT:** It is stated this scheme is based on a sort of co-operative state where people voluntarily come into the scheme and that those who do not come into the scheme will be visited with penalties and taxes for the privilege of doing business in the province, fixing certain taxes or penalties on those who do not co-operate?

A. You are trying to do something indirectly that you cannot do directly.

Q. **Mr. BROWNLEE:** This is a point we often meet in the country; that if we have no power to do these things that we can change the Constitution. Will you explain what has to be done?

A. You have to get an Act of the Imperial Parliament.

Q. In other words this province has not the right?

A. Neither has the Dominion. It requires an Imperial Statute as far as Sections 91 and 92 are concerned.

Q. **Mr. McCOOL:** The Dominion Government would ask the Imperial Government?

A. I believe they are trying to arrange some method now.

Q. But as the law stands now?

A. This province itself can do nothing.

Q. **Mr. MacLENNAN:** Before there could be a change made there would have to be substantial agreement between the provinces?

A. Yes, and the Dominion.

Q. **Mr. FALCONER:** Has this province the right to impose a sales tax or any other form of tax on commodities consumed within the province?

A. Yes, if they impose the tax on the consumer. They cannot impose a sales tax.

Q. If on the consumer only, they have that right?

A. Yes.

Q. **Mr. MacLENNAN:** In connection with Raymond scrip, will you tell the committee whether or not the scrip issued by Raymond was legal?

A. I saw two forms of scrip, one was a promissory note and nothing else and was directly under that section of the Bank Act. I believe some proceedings were started and dropped.

Q. The negotiable part of their issue was illegal?

A. Yes.

Q. **Mr. BROWNLEE:** Do you know of any value of a negotiable document over a non-negotiable? Providing for the flow of credit everything would point to the necessity of a negotiable document rather than a non-negotiable?

A. It would be better.

Q. Is there any other explanation for the proposal of a non-negotiable certificate other than an attempt to get around the Bank Act?

A. I do not know what is in their minds.

Q. That is the only interpretation can be put on it?

A. Yes.

MOVED by Mr. MacLeod, seconded by Hon. Mr. Hoadley, that if Mrs. W. W. Rogers or other persons interested in Social Credit desired to ask questions of the witness that they be permitted to do so. Mr. Matheson objected on the ground that there was not time, but was overruled. However no one signified a desire to question.

Q. **Mr. FALCONER:** Has the province a constitutional right to determine or fix the margin of profit that may be realized on any commodity sold within the province either through retailers or wholesalers or other selling agency in the province?

A. You mean could they fix the price on articles actually produced and sold within the province? Possibly, but when you get into the field of importation it might be difficult. That is a very complicated question. We, for instance, fix the price of milk produced within the province and sold here. You could perhaps fix the price that way, in such a case because you are outside the inter-provincial field. The province could not prohibit individuals from importing from outside on their own and such importation could not be taxed by the province.

Q. A large percentage of our goods come from outside?

A. Yes, and that involves an entirely different problem.

ECONOMIC ASPECTS OF SOCIAL CREDIT

PROFESSOR ELLIOTT, DEPARTMENT OF ECONOMICS, UNIVERSITY OF ALBERTA, BEFORE THE AGRICULTURAL COMMITTEE OF THE ALBERTA LEGISLATURE

April 12th, 1935

Professor ELLIOTT: I have been asked by this Committee to come prepared to give a statement concerning the probable effects, the probable economic effects of the following group of proposals.

In this statement I propose to consider the probable effects of the following group of proposals quoted from "Study Group Feature No. 3," obtained from the Social Credit headquarters in Edmonton:

> "(1) Through the agency of basic dividends granted to every bona fide citizen (sic) we shall give purchasing power sufficient to buy the bare necessities of food, clothing and shelter, without basing the same on work, but the unearned increment of Social Credit.
>
> "(2) This will be distributed through Credit Houses at which monthly (sic) a Credit pass book will be presented by each citizen and an entry of $25.00 will be made.
>
> "The citizen will then be able to pay for purchases by a non-negotiable certificate ordering the transfer of the Credit to another.
>
> "The process will be largely a matter of book-keeping.
>
> "These dividends will be paid to the individual man or woman, married or single, and each will have full authority over same."

This proposal to pay basic dividends is coupled with the fixing for each commodity of a "Just Price" equal to cost of production plus a fair return to the producer. I quote from Mr. Aberhart's evidence before this Committee last Spring (page 18):

> "A guild commission might sit from time to time to ascertain the actual total cost of production and to examine the ratio of consumption to production. If consumption is lagging behind production, the commission could allow a discount off the total cost to increase the consumption. This discount would be paid to the retailer by the state credit house or allowed to the consumer on presentation of his invoice at the state credit house."

Joined with the other two proposals there is a rather vague one that if the credits become redundant they will be recalled by some means or other.

I wish to be sure that you realize that I am not speaking concerning the probable economic effects of any monetary reform measures, but of these proposals. Before proceeding I should like to define certain terms that I will use in my discussion.

I shall use the term "circulating media" to include all the things customarily accepted in payment for goods, services or debts, whatever these things are called: whether money, bank notes, tickets or non-negotiable certificates; and whether they pass from hand to hand or take effect through transfer on the books of the bank or a Credit House.

I shall assume that all people in Alberta can be induced to co-operate and will customarily accept the "non-negotiable certificates ordering the transfer of credits." These non-negotiable certificates or the Credits transferred by means of them will, therefore, be "circulating media." I shall refer to them hereafter as Alberta certificates when I wish to distinguish them from other forms of circulating media.

Before proceeding, I wish to make it plain that once these Credits are entered in the books of the Credit House they will be transferrd from the account of one person to that of another as payment for goods and services. They will be regarded by their owners as bank deposits. Additional issues will tend to increase the total amount outstanding. They will not disappear in some miraculous fashion. Otherwise they could not be acceptable as payment for goods and services. Nor can the government or Credit House get possession of Credits already in circulation except by borrowing, taxing or requiring repayment from those to whom they were originally issued.

I shall use the term "exports" to indicate goods produced in Alberta and sold in markets outside Alberta, and the term "imports" for goods purchased outside Alberta and brought into the province.

In the first place, the inhabitants of Alberta cannot obtain any goods or services save what they produce for each other or obtain in the form of imports for goods and services exported from the province. Now Alberta is not a self-contained province. She specializes in the production of primary products, sells these for the most part outside her own borders, and with the proceeds imports from outside most of the goods consumed in the province. No action of Alberta can materially affect the price received in outside markets for her products; nor the price in outside markets that her citizens must pay for their imports. In other words, the introduction of the proposed measures into Alberta will not increase the amount of imports her citizens receive for their exports.

A few statistics will serve to illustrate this point. Most of the goods we buy for use are not raw materials. They have been processed in some fashion or other. Such processing is classified by the Dominion Bureau of Statistics as manufacture. As shown by the Canada Year Book for 1933 (page 214) only 22% of the value of the net production of Alberta in 1930 consisted of manufactures. A fairly large proportion even of these manufactures are exported to other provinces or countries. The corresponding figures for the other provinces in the same year were:

Nova Scotia	36%	New Brunswick	38%
Quebec	63%	Ontario	63%
Manitoba	48%	British Columbia	44%

In only two provinces was the proportion of manufactures to total product lower; in Prince Edward Island it was 10% and in Saskatchewan 20%. It follows that Alberta is probably less well equipped to produce in the province the things her people consume than any of the other provinces except Prince Edward Island and Saskatchewan. And to repeat, no action which Alberta can take, constitutional or unconstitutional, will affect materially the price in terms of Dominion currency which her citizens will receive for their exports or the price in Dominion currency which they will have to pay in outside markets for the things they buy.

Moreover, Alberta's citizens are required to make large interest payments to persons or corporations outside the province. Alberta certificates will not be accepted in making such payments. Under a system of Social Credit Alberta's citizens must, as they do now, export their products and sell them for what they will bring in terms of Dominion currency and with the proceeds make their interest payments. The Alberta certificates issued to exporters to make up to them the difference between what they receive and the "Just Price" would not be acceptable outside Alberta.

Let us turn now to consider the effect of the issue of the first $10,000,000 of Alberta certificates. Let us assume that all co-operate in the plan and accept the tickets at their face value. People will buy more goods. In so far as the additional issues are used in the purchase of goods produced in Alberta, the tendency would be for purely domestic production to increase somewhat in the earlier stages of the process. A little more electric power might be used, a few more Alberta-grown vegetables purchased or a few more dwellings constructed. However, the introduction of any fundamental monetary change is accompanied by a considerable increase in doubt, fear, and uncertainty. This fear and uncertainty is apt to be more intense when the proposed change involves the alternatives of rapid depreciation of the value of the circulating media or a very great increase in taxation. This frame of mind will probably have effects at least sufficient to prevent business men from undertaking important extensions of plant or extensive increases in output even in the domestic industries.

But most of the additional goods purchased must be imported from outside the province. Those who import the goods must pay for them in Dominion currency or

bank deposits. They use their Dominion currency and bank deposits to pay for the additional goods. In the meantime while Dominion circulating media is being paid to persons outside the province in larger amounts, no larger amounts of Dominion currency will be received for Alberta's exports. The amount of Dominion circulating media in the province will diminish. This displacement of Dominion circulating media will continue so long as consumers in Alberta buy in the aggregate more goods than they would have purchased if the dividends had not been paid.

In order to maintain a "Just Price" producers may be given, in Alberta certificates, the difference between the price they receive for their exports and the "Just Price." Similarly, if importers are forced to pay higher than the "Just Price" for their imports, they may be similarly recompensed. This will tend to stimulate somewhat both imports and exports, but in addition it will increase that much more rapidly the amount of Alberta certificates in circulation in Alberta and will drive out Dominion circulating media more rapidly.

If it should happen that those who have funds in Alberta become alarmed and decided to export them from the province, the withdrawal of Dominion circulating media from the province might be even more rapid than the issues of credit.

Unless the Alberta certificates are withdrawn by taxation or borrowing, month by month, in amounts substantially equal to the issues of certificates, Dominion circulating media will continue to be driven from the province. In a short time it will become scarce. Those who require it, in order to make payments outside the province will bid up its price in terms of Alberta certificates, that is to say, Dominion funds will rise to a premium and Alberta certificates will sink to a discount. Those who sell goods abroad will receive more Alberta credit dollars than before, but it will require more credit dollars to purchase goods from outside Alberta. If additional credit is issued to compensate those who have to pay more than the "Just Price" for imported goods, this will merely hasten the process of depreciation. Prices received for exported goods and prices paid for imported goods will tend to rise, that is to say, the value or purchasing power of Alberta certificates will fall. If the province continues to issue more and more Alberta certificates, without borrowing or taxing, they will eventually become worthless and the people of the province will be left without any acceptable circulating medium.

I am aware that in periods of prosperity economists are often regarded as idealistic weavers of fine spun theories and that in depression periods they are regarded as ardent defenders of the status quo. The method of experiment is seldom open to the economist but this principle has been actually demonstrated time and again: whenever a government greatly and cumulatively increases its issues of circulating media without taking appropriate steps to recall it, the value of the circulating media falls and if the policy is continued the currency eventually becomes worthless. This happened to the issues of the American States during the Revolutionary War; it happened to the currency of the Southern States during the Civil War; it happened to the French currency during the French Revolution and the German currency after the last war. Wherever it has happened, trade has become completely disorganized and production has come almost to a standstill. The same result has occurred no matter what the circulating medium was called and no matter for what purpose it was issued. It has happened no matter what the actual or supposed backing of the currency; no matter whether the original basis of its acceptance was that it was backed by land, or the productive powers of the state or the promise of a government to pay or by nothing at all. This result will follow issues of Alberta certificates by the Alberta government unless such credit is withdrawn by taxation or borrowing as rapidly as it is issued.

But, it may be argued, the price of each commodity will be held down to an unchanging figure. In that case, as issues are increased, they will eventually exceed the amount of goods offered at the fixed prices. As further dividends are paid the certificates will become worthless unless withdrawn as rapidly as they are issued.

Several methods of withdrawing the Alberta certificate issues to prevent redundancy have been proposed. When he appeared before this committee last year, Mr. Aberhart first proposed that the credit which remained in the accounts of individuals should either be confiscated or used in the purchase of Alberta government bonds bearing interest at 4%; on page 18 of the published evidence before this committee last Spring Mr. Aberhart is reported as saying:

"The consumer must use up all his credit. If he cannot use it all on consumable goods, he must turn it back to the government for bonds payable at a future date."

On page 52 I am quoted as asking Mr. Aberhart if the bonds would be non-interest bearing and his answer is:

"No; the bonds would increase the basic dividend by four per cent. the same as the man who puts his savings in."

On page 23 replying to a question by Mr. McCool concerning the way in which the basic dividend certificates get back to the government he is reported as saying in part:

"We would get $300,000 in an adjustment levy. That adjustment levy would have to level down so it could be done. The government would do that.

"Q. How would you get back the other 90 per cent.? That does not get it back to cancellation. In what way does that go back for cancellation?

"A. Well here is a man with $5,000 a year. The levy would come on that man to pay sufficient to cover up the amount you require. He would have to give in to the state that credit he has accumulated. He would give back to the state his share of that amount to give them a chance to get it back again.

"Q. That is through taxation.

"A. Yes.

On page 66:

"My point is, there is no need of taxation whatever to take back the basic dividend."

The position seems to be that if the amount of circulating media within the province became redundant the government would have to obtain possession of the redundant issues in some fashion or other. I have shown that unless the issues of credit certificates paid out as dividends are withdrawn over a moderate period of time step by step as issued, the issues will become redundant and depreciate, and if the policy is continued will become worthless.

Now it is to be remembered that these redundant issues are in the possession of people who have taken them in good faith in exchange for goods or services. The government can secure them only by borrowing or requiring payment in some fashion. If the government borrows at the rate of $120,000,000 a year the provincial debt and the ordinary burden of taxation will be increased very rapidly. The alternative is that the government collect in taxes $10,000,000 a month on the average (i.e., $120,000,000 in taxes, licenses or fees) in addition to the ordinary taxes. In that case the burden of debt need not be increased and the Alberta certificates need not depreciate and eventually become worthless.

I shall consider the effect if additional taxes of $120,000,000 a year collected on all goods and services sold and included in the price charged the purchaser as is done in the case of the gasoline tax. For expenditures other than the basic dividend additional taxes would have to be collected as at present.

Let us consider what this additional tax of $120,000,000 would mean to the taxpayers of Alberta. The aggregate net production of Alberta in 1930 is given in the Canada Year Book 1933, (page 213) was approximately $185,000,000. I use this figure rather than that for gross production that is used in the Social Credit "Study Group Studies" for reasons given in the Canada Year Book (page 204):

"The values of products are shown under two headings, namely "gross" and "net." "Gross" production shows the total value of all the individual commodities produced under a particular heading. "Net" production represents an attempt to eliminate the value of materials consumed in the productive process. For purposes of ordinary economic discussion, the net figures should be used in preference to the gross, because of the large amount of duplication which the latter included on account of the necessity of making the individual items self-contained."

The people of Alberta, then, produced an amount of goods and services which they sold for $185,000,000. To reach a figure for the net income of Alberta we would have to add to this figure receipts of interest and principal by Albertans from investments elsewhere and we would have to subtract from it interest payments and principal made to individuals and corporations outside the province. These figures are not available. If we neglect the net interest payments made to non-residents of Alberta, however, we may take the figure of $185,000,000 to represent the aggregate income of Albertans in 1930. I have used the 1930 figure for illustration because it is the latest published in

the Canada Year Book. The figure for later years would be somewhat less. However, let us take the figure of $180,000,000 as an approximation.

We have seen that the issues of Social Credit would not increase the prices received for our products in outside markets. The distribution of the dividend, then, would not increase the real incomes of Alberta's inhabitants. But it would increase their money incomes by approximately $120,000,000 giving them a total income of $300,000,000. Of this total income $120,000,000, or two-fifths would be required to pay the taxes involved in retiring the dividend issues. Let us suppose that each individual uses the whole of his income to buy commodities and services. He would be taxed, then, in the price of the goods he buys, an amount equal to two-fifths of his total income, for example an individual who without the dividend would have received $450 would receive an additional $300 as a dividend making in all $750. There would be included in the price of things he bought a tax amounting to two-fifths of his income, that is to say, $300. Such an individual would be just as well off and no better off than if he had not been paid this dividend and had not been taxed. An individual who without the social dividend would have received $900, would receive a dividend of $300, making a total income of $1,200. He would pay two-fifths of this income in taxes, that is to say, $480. His net income would be diminished by $180, a rather heavy tax on a $900 income. An individual who without the dividend would have received less than $450 would have his income increased by the plan, thus if his income without the dividend had been zero, he would receive a $300 income and in purchasing commodities would pay two-fifths, that is to say $120, leaving him a net income of $180. Thus incomes higher than $450 a year would be lowered toward $450 and incomes less than $450 would be raised toward $450. Each individual may see, then, by a simple computation how his income would be affected by the issue of the dividend and the additional taxes involved in its issue.

Such taxation and payment may be desirable or undesirable. It is not my function to answer that question. Nor is it my place, I think, to consider whether an increase in taxation of such large proportions is administratively and politically feasible.

I wish, however, to repeat a statement which I made two or three years ago before this committee. A clear distinction should be made between financing a government and regulating the amount of circulating media to correspond with trade requirements. For the purpose of appropriate currency regulation all governments, whether Dominion, provincial or municipal, are to be regarded simply as a number of important concerns. Since production in Canada is by no means wholly performed by governments or governmental agencies, the business of the country must be viewed as a whole. All producers and consumers should be given equal consideration.

Moreover, to finance a government by the direct issue of circulating media and to control the amount of circulating media by taxation reverses the functions of institutions which historically have become more or less adapted to their customary functions. Taxing systems are designed to finance the government. Taxation is a slow and clumsy instrument in the control of a monetary system. Central banks have much more effective and delicate instruments in their control of the discount rate and open market operations. Admittedly, the Bank of Canada is a new and untried institution and the officers of the Bank will almost surely make some mistakes before they learn to operate it with full success. But that would occur also in the initial operations of any untried institution such as the one I have been discussing.

One more point and I shall be finished. If all business men are guaranteed costs plus a fair return on their product and can receive no more, then there will be no incentive offered them to vary the amounts of their various products or to change the type of products to suit changes in the tastes of consumers. They will have no incentive to change their methods of production, when new and improved methods are developed. And there will be no incentive to attempt to discover such methods. If, then, the government removes the fear of loss or the hope of gain and wishes, nevertheless, to insure that business men will use the resources of the province to produce what consumers want by efficient methods, it will be forced to determine what each producer shall produce and how much and what production methods he should use. Again it is not my duty to evaluate this result. I can merely point it out.

QUESTIONS ASKED BY MEMBERS OF THE COMMITTEE TO PROFESSOR ELLIOTT

Q. **Mr. MATHESON:** Will you explain to the committee something about what is called velocity of circulation and how a rubber cheque can pay for a lot of credit on commodities?

A. **Prof. ELLIOTT:** Circulating media of all kinds customarily are given and received in payment of goods or serviecces or debts. When I buy a suit of clothes I make payment in circulating media. The tailor who buys the goods from outside makes a similar payment. Any unit of circulating media then may perform in a given period of time quite a number of transactions between individuals.

The velocity of circulation means the number of times which the circulating media is used on an average per month or per year, in making transactions. No person can use circulating media unless he has it; that is to say, ordinarily he will have received it in payment for goods or services. Similarly a government, if the circulating media is supposed to circulate through the hands of the government, must receive the circulating media before it can pass it on again. It may receive it as a gift, but such items are small. It may receive it in return for a bond, or for a note of some kind, that is to say it may borrow it or it may tax it.

Now that is a simple preliminary statement, will you make your point more specific?

Q. Assuming there are 400,000 people in Alberta, each one receiving $25.00 per month in non-negotiable certificates, that would amount to ten millions of dollars, or ten million's worth of goods and services are purchased with that amount; is there any way through the flow of credit that that ten million can carry on through the next month, to 12 months, to buy and pay for $120,000,000 worth of goods, because if you multiply by 12 you must find the sum to be $120,000,000. Is there any way the original ten millions can be used by velocity of circulation, or other means, to pay for $120,000,000 worth of goods by the original issue of $10,000,000?

A. It may be used during the course of a year to pay for a large value of goods, but it will not come into circulation and pass into the hands of the government so that it may be passed on by them for the payment of dividends or for any other purpose, unless they receive it in those certain ways: gifts, borrowing or by taxation.

Q. **Mr. LYMBURN:** Each month they would be required to collect $10,000,000 back?

A. If they are to pay it out again without increasing the total amount of that in the hands of the public.

Q. **Mr. HOADLEY:** Then your point is, you actually pay out $120,000,000? It is only a question of how you get it to pay out?

A. Or how you get it back if you want to pay out another $120,000,000 without relatively increasing the amount of certificates.

Q. **Mr. HINDSLEY:** Where $10,000,000 in tickets is used in purchase of consumption goods, is one proposition where these have to be regained in some form by the government and another proposition is where $10,000,000 in tickets is used only in payment of debts and passed from hand to hand and circulated. These could make a reduction of $120,000,000 provided everybody owes the same amount to each other. You can liquidate $120,000,000 of debts but you cannot use it to purchase $120,000,000 of consumption goods.

A. It is true that, depending upon the rapidity of the velocity of circulation, a large amount of debts can be paid off between various debtors in a year, but it is not true that the original consumers who received the $25.00 to begin with can again receive it from the government unless it is paid in to the government.

Q. **Mr. FARTHING:** This money is to be issued for the main purpose of all money, for the purchase of goods and services; that is clear?

A. That is my understanding.

Q. And the one hundred and twenty million of these certificates issued in the course of a year are supposed to purchase $120,000,000 of goods and services; that is clear too?

A. It is supposed to purchase that amount for those who receive the original $120,-000,000.

Q. Now if the government is to issue $120,000,000 for goods and services, or the purchasing power of $120,000,000 in goods and services, does it not follow the

government must get, whatever be your monetary system, the proceeds of $120,000,000 worth of goods and services in order to redistribute it?

A. There are two possibilities there. Either the government taxes it back, or borrows it back. The answer to your question there would be yes. If they do not tax it back and continue to issue it, it depreciates. That is to say, those who now have claims or credits or any other circulating media can get less than they would otherwise have been able to get for the credits they have and what they cannot purchase with the depreciated currency could be purchased by those who are paid $25,000,000. So also in that case the answer to your question would be yes.

Q. **Mr. FARTHING:** I will read again a quotation from Mr. Aberhart's article. He says there will be no interference with the external relationship:

> "There will be no interference with the present money, nor will the province issue scrip in any form. . . .
>
> "It should be remembered that Social Credit is purely an internal arrangement for the scientific distribution of goods within the province. There would be no interference with external relationships, nor with our present methods of transacting business with other provinces or countries. All foreign accounts must be settled by the transfer of goods. A money order is merely an acknowledgement of debt by one government to the other. Under Social Credit the only difference would be that our citizens would purchase their money orders through the State Credit House with non-negotiable certificates charged against their credit accounts, instead of buying the same form of order with a cheque on a chartered bank."

Now, apparently for the purpose of external trade we can get something still by legal tender in Saskatchewan and British Columbia if we want to pay the account there. Does that not tie up the whole system of non-negotiable certificates with the general legal monetary circulating system of the Dominion of Canada. Does it not make all these certificates rest upon the monetary system of Canada and therefore expose us to all liabilities which such a system would incur?

A. I think that I can interpret your question in this fashion: If these certificates can be converted into Dominion currency, at the will of the holder, will we not be subject to the same fluctuations that the general monetary system of Canada can be subject to.

Q. Yes, and will we not have to finance the thing under the monetary system of Canada? Are we not about where we started from?

A. The answer to the part of that question that I framed is yes, we would be subject to the general fluctuations of the monetary system of Canada if the province maintained perfect convertability of certificates at par into Dominion currency. But, as I have shown, if these certificates are issued in larger amounts than they are taxed in, the amount of Dominion dollars in the hands of the citizens of the province, or the hand of any citizen in the province, will tend to become scarce. Unless, then, these certificates are recalled as issued by taxation, borrowing or gifts, convertibility cannot be maintained at par. If they are so recalled, then the situation would very closely resemble the situation which would occur if we used our ordinary currency system and levied taxes to the extent of $120,000,000 a year.

Q. We will have to get credit or currency under the terms of the Dominion Monetary system to the extent of $120,000,000 a year?

A. We will have to secure Dominion currency, or currency acceptable to individuals elsewhere in the Dominion to the extent we make payment to such individuals.

Q. **Mr. HINDSLEY:** When there are two currencies in circulation, one certificates and the other Dominion notes, in your opinion as certificates are increased their acceptance will be less rapidly taken, that they will consequently depreciate more in value?

A. I assume that individuals would co-operate fully in the sense of accepting them. But I do suggest that their issue would tend to drive out the Dominion currency and that would eventually become scarce; and individuals wishing to obtain Dominion currency, whether they wished to co-operate or not, would have to pay more for it, that is, the certificates would be depreciated.

Q. The less valuable currency tends to drive out the more valuable?

A. When two currencies are circulating in excess.

Q. The situation would arise the tendency of Dominion circulation would be to go into hiding?

A. To be withdrawn from the province probably.

Q. **Mr. MATHESON:** Regardless of how often the instrument circulates you cannot purchase and pay for $120,000,000 worth of goods and services without first

establishing a credit basis on Dominion currency to pay for $120,000,000 in goods and services regardless of how frequently these certificates would be transferred from one body to another, at the end of the year $120,000,000 worth of goods and services must be paid for in some fashion?

A. Those originally receiving certificates as a gift will receive goods purchased with that gift at the expense of someone else in the province.

Q. **Mr. BROWNLEE:** Do you know anywhere, in any country in the world, in which a free gift of $120,000,000 could be made without constant inflation of currency?

A. I cannot say. There are some large and rich countries in the world.

Q. If you make free gifts and are not going to tax it back again, making free gifts of money, you are increasing the currency to that much?

A. If it is not retired in substantially the same amounts as issued, by borrowing or taxation, then in any country, no matter what size, depreciation will result.

Q. If this province should attempt to issue certificates to the extent of $25.00 per month, we would be driven inevitably to either one of two courses: to tax it back or borrow it back on the one hand or to suffer depreciation on the other?

A. Yes, if the policy were continued.

Q. Your whole address this morning is based on the assumption people will accept this?

A. That they will give it their fullest co-operation. Would you care to express an opinion, taking the constitution as you know it exists, can this province give certificates, or give credit to the amount of $25 without being obliged to redeem it in some way?

A. What do you mean by ''can''? If you mean legally, that is a question for Dean Weir. My opinion would be quite worthless.

Q. I think this committee will be very glad if you feel you can do it. One of the most popular arguments we face in the country in justification of this scheme is based on the theory that banking is a fountain pen transaction, or otherwise carrying out to great extreme Sir Reginald McKenna's statement that every loan makes a deposit. Would you say that the banks have the right to give unlimited credit with the stroke of a pen?

A. I would not like to express an opinion on the legal basis of the matter, but on an economic basis they certainly cannot do it safely—cannot do it without disaster to themselves.

Q. The solvency of Canadian banks, or any banks, depends on the last resort on the ability to repay deposits, to redeem their bank notes, and meet any obligations, with legal tender?

A. They are required to meet notes and deposits at the will of the holder. They cannot stay open otherwise.

Q. The ordinary bank note issues as recognized today are regulated by the provisions of the Act, designed to secure bank note holders from loss?

A. I understand that the provisions of the Canadian Act are as strict as can be found in any country.

Q. The whole idea of the Central Fund to which each bank subscribes every year is entirely for the purpose of securing the redemption of bank notes should any bank become weak or not fully able to carry on?

A. Contributions to the Bank Circulation Redemption Fund are made for that purpose.

Q. The banks are subjected to strict scrutiny by the Inspector General of the banks of Canada from the standpoint of loans and business transacted as a safeguard?

A. That is so.

Q. The Inspector General can step in at any time and stop further loaning by that bank?

A. Yes.

Q. **Mr. MATHESON:** You had some documents with you today, some pamphlet issued by some headquarters here with regard to the Aberhart plan. Would you care to express an opinion whether the Aberhart plan has any real similarity or relation to the Douglas plan?

A. I should not care to express an opinion.

Q. **Mr. FARTHING:** After all it comes down to this, the value of your money in any country depends on the sum total of the value of goods purchased or the services available for which purchasers can be found?

A. The money side of the transaction is only one side. The other side is goods and services and the two must balance.

Q. The reason it cost a thousand marks in Germany at one time to buy a dinner was because of the fact they had more money issued than they had goods and services to back it up.

A. More than could have been purchased with that money at lower and what some people would have called, reasonable prices.

Q. Suppose everybody in Canada was made a millionaire by giving him so much money; at the end of six months everything would be much the same as it was before?

A. I doubt whether any more goods and services would be available to the people. Issues to that amount would cause less to be available because of dislocation.

Q. The average situation of the people would be worse than before, although in name all are millionaires?

A. That is so.

Q. We have heard a great deal about the possibilities of this proposal because of the great wealth of our natural resources, by far the greater part of which is of course undeveloped. Is it not true the only way a government can capitalize on undeveloped natural resources is by borrowing money?

A. Will you explain more definitely what you mean by ''capitalize on''?

Q. Some advocates of this scheme state this money can be issued and there is nothing to be afraid of because we have so much wealth in the province. Now our natural resources are not developed and are really worthless from a commercial point of view except so far as you can get someone to loan money on them?

A. For the time being the resources are worthless to the government unless in the expectation of future development they can borrow on these resources.

Q. The only way you can capitalize them, or make them any good to you to make immediate payment with is to borrow money?

A. The only way you could make immediate payment with them.

Q. The observations you have made today are quite independent of any great change in the banking system or banking law. Suppose we made a complete change in the system of banking and the government took over full control of credit facilities your remarks on this subject would hold equally true?

A. Yes. The principle is that if circulating media were issued in large amounts without being either borrowed back, taxed back or repayment made in amounts substantially equal to the issues emitted, then the currency must depreciate; and if the policy is continued must become worthless.

Q. That would be apart from the iniquity of financiers, or the wickedness of banks, or anything else?

A. It cannot be helped.

Q. I take it you have lectured a good deal on the science of government and so on, and may I ask you the same question in the same form I asked Dean Weir. Do you know of any sovereign power in the world that does not retain in itself, as distinct from its subsidiary and secondary government, full control over tariffs and imports generally?

A. No.

Q. Is not complete freedom of trade internally essential to a nation?

A. It is usually so regarded.

May I take an illustration as an example. In the American Confederacy there was not freedom of trade, the system being to regard it as a Confederacy of States and it worked very poorly and eventually inter-state tariffs were abolished.

Q. The States at that time were not regarded as constituting a single sovereign power?

A. No.

Q. **Mr. RONNING:** Will you describe the monetary transaction that takes place when a resident of this province makes a purchase of goods from Ontario? You made the statement Dominion currency would be necessary for that. We are being informed that that is merely a bookkeeping transaction and the issue of non-negotiable certificates in this province would not interfere in any way with such transactions, because it is merely bookkeeping?

A. I have already explained that I think it unreasonable to suppose that the seller in Ontario would accept Alberta credits or Alberta certificates. The transaction may be made at the present time in a number of different ways. Dominion circulating media may be sent in a registered letter, or a cheque may be sent in payment. In that case the deposit of the Dominion currency, the Dominion circulating media, to

the credit of the individual drawing the cheque in Edmonton, is diminished by the amount of the cheque and the amount of the receiver in Toronto is increased in Dominion currency by the amount of the cheque. The transaction takes place in Dominion circulating media. That is perhaps the most common method of effecting transactions.

Q. **Mr. MATHESON:** But before the cheque is good it must be based on credit in the bank established on Dominion currency?

A. It must be drawn against the deposit account which forms one of the circulating media of the Dominion, otherwise it would not be acceptable in Toronto.

Q. The solution of the problem, according to those who advocate this system is the increase of purchasing power in the hands of the consumer. Would the issue of a basic dividend of $25.00 to every adult in the province on the basis proposed increase the total purchasing power in the hands of the consumers if that was made redeemable by one of the three methods you suggested?

A. Not save for any interval that might intervene between the time the issue was made and the time taxes were collected, or the time borrowing took place.

Q. In regard to the use of the term "non-negotiable certificate" we were informed by a representative of the Town of Raymond that his understanding of a non-negotiable instrument was one directly returned. When the Town of Raymond makes a payment for servies rendered to some individual, and that individual owes the Town of Raymond taxes, he endorses that back immediately to the Town of Raymond and it is impossible for him to pass it on to anyone. That is non-negotiable. If that is correct would it be strictly correct to say this instrument being proposed is non-negotiable?

A. There are some difficulties there. In the first place you are proposing a question of law and I am not competent to answer it.

Q. In your study of economics how do you designate such an instrument? Is it correct to call this proposed form non-negotiable? If a non-negotiable certificate is it similar to that advocated by the Town of Raymond?

A. If certificates are used as payment for goods customarily then from the economic point of view, whatever they are called, negotiable or non-negotiable, they will be circulating media and my argument will apply to them.

Q. **Mr. WALKER:** Will you explain this transaction: I as a farmer go to the bank and it is taken for granted I am able to secure a loan of $1,000. In the books of the local bank I am given a credit and a cheque book is given me, and I can cheque against that $1,000. No money enters into the transaction at all. Will you explain what makes it possible for the bank to give me that credit of $1,000?

A. The ordinary situation would be this: The bank will have liabilities to the public as large as it deems consistent with the requirements (which Mr. Brownlee asked about) to redeem these liabilities in legal tender. The loans ordinarily will not be forthcoming *under these circumstances* in increasing amounts but the issue of one loan will coincide with the repayment of another so the liabilities of the bank will not be increased.

Another way in which the situation might be handled would be for the bank to make a loan and at the same time sell securities thus receiving a payment, retiring if you like these notes and deposits in return for the bond or security it has parted with.

Q. Is it true they could only make that loan if I had the ability to repay?

A. They have made other loans but they could not follow it as a constant policy without going bankrupt.

Q. **Mr. McPHERSON:** Is this not the difference between the statement that the issue of dividends to the extent of $25 is a fountain pen transaction the same as bank loans; is this not the difference that the bank loan is based on an asset, on the expectation of repayment with the assets of the individual borrower as security, and that limits and determines the amount of loans that can be made. That therefore is the difference between dividends and loans of the bank, that the bank loan is repayable by the borrower and based on the assets of the borrower, and the other is without return unless of course taxation comes into the scheme?

A. The bank could not carry on and remain in business by making such gifts as proposed in dividends. It is an important difference but I should not like to say that is the only difference. If the province did carry a bank, and carried on in precisely the way that banks carry on, that bank would not adopt the policy of making gifts.